

Economy sturdy, state says

Analysts cite resilience even as forecasts are revised downward

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The recent spate of airline bankruptcies and employee layoffs has been shocking for the state, but doesn't signal a steep downturn in the economy.

That's the upshot of a new

state Department of Business, Economic Development and Tourism economic forecast, which revises downward economic expectations for this year and next year, but sees a brightening of prospects in coming years.

"Some people are panicking, but the numbers aren't that bad," said Pearl Imada Iboshi, state economist. "People forget that the economy generally goes in

cycles."

Hawaii's economy has appeared shaky in recent months, starting with Aloha Airlines' demise at the end of March and followed by the shutdowns of ATA Airlines and Molokai Ranch, the loss of two of NCL America's Honolulu-based cruise liners and, more recently, Maui Land & Pineapple Co.'s layoff of

YEAR-OVER-YEAR PERCENTAGE CHANGE

	2007	2008*	2009*	*2008 and 2009 are forecasts
Visitor arrivals	-0.8	-6.7	-0.8	Source: state Dept. of Business, Economic Development and Tourism
Visitor expenditures	0.9	-6.4	2.9	
Honolulu inflation	4.8	4.5	3.5	
Inflation-adjusted income	1.5	0.4	0.8	
Total wage and salary jobs	1.0	0.2	0.5	
Inflation-adjusted GDP	2.7	1.9	2.0	

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274 workers. Rising prices and economic worries about surging crude oil prices have also weighed on the economy. These and other events have resulted in:

- More than 5,200 people being laid off from jobs in the state this year.

- July's seasonally adjusted unemployment rate rising to 3.9 percent, a five-year high.

- June visitor arrivals dropping by 14.2 percent, the biggest decline since January 2002.

- The state Council on Revenues lowering its state revenue collection forecast for growth from 2 percent to 1 percent for the fiscal year.

- Inflation in Honolulu rising by 4.9 percent during the first half of the year, driven by higher electricity, gasoline and housing costs compared with the same period a year earlier.

The numbers have led some to wonder if the state is experiencing a major setback and whether it may take years to reverse the loss. But Iboshi's forecast points to more of a cyclical downturn.

There also has been heartening news in recent weeks, as crude oil came down from its historic high of \$147.27 a barrel reached on July 11.

On Friday, crude oil for September delivery closed at \$113.77 on the New York Mercantile Exchange. That served to dampen some of the anxiety brought on by prognosticators who earlier this summer were saying \$200 a barrel oil was a possibility.

TOUGHER THAN MANY

Paul Brewbaker, chief economist for Bank of Hawaii, said there are comparisons that can be drawn with Hawai'i's downturns of the early 1980s and '90s, but that as he looks at the data he is struck by the economy's resilience. For example, there are fewer homes being built in Hawai'i's civilian community, but a federal government program to privatize military housing is offsetting that, he said.

He said other noteworthy points include local housing prices remaining stronger than those in Mainland markets smacked by the mortgage credit crunch and the state's ability to ramp up infrastructure investments because it has a strong credit rating.

"There are things that are way worse than anyone thought," Brewbaker said. "Despite all of that, things are kind of holding together. It's actually not as bad as some people think."

The message is similar to one that Gov. Linda Lingle has been delivering about the state economy. Last week, she spoke at a dinner commemorating the 75th anniversary of Occidental Underwriters, a Honolulu-based insurance and financial services firm, telling the group she realizes these are challenging times for the state given the impact of oil prices and lower tourism.

"Occidental has weathered these ups and downs and so does our state," Lingle said. "They know the imperative of being flexible and not hunkering down, but looking for opportunities even in challenging times."

GOVERNOR HAS A PLAN

Lingle has come up with a plan to aid the economy in the short term, including releasing millions of dollars for building new schools and taking care of a con-

struction backlog, while planning for \$615 million in harbors work and a \$2.3 billion airport modernization program.

Her other steps call for lowering fees and taxes, attracting outside investments and narrowing the focus of tourism marketing to visitor-rich states such as California. Lingle also wants to make innovative use of federal money and create more partnerships that can benefit the state.

Iboshi cited other positives for the economy. She said the state is still seeing job growth, with the number up 0.6 percent through the first half of the year. Unemployment, while higher than recent years, was below the national rate of 5.7 percent.

FALL TOURISM TROUBLING

Brewbaker, Iboshi and Carl Bonham, executive director of the University of Hawai'i Economic Research Organization, all said that uncertainties about the state's economy persist, especially when it comes to visitors. The fall tourism season is shaping up as a weak one.

Where forecasters had expected the drop-off in seats from the Mainland to be erased through the summer as other airlines stepped in to fill the void left by Aloha and ATA, the deficit persists. The latest DBEDT airline survey found a 15 percent drop in U.S. passenger seats during the August-to-October period, compared with a year earlier, including a 16.5 percent decline in the important U.S. West market.

"We were also expecting those double-digit losses would taper off but we're not seeing the signs of that yet," Bonham said. "We don't know yet whether that's going to continue through the

fall. I wouldn't call it a rough spot, I'd call it a pretty bad spot in the visitor industry."

Bonham said the sluggish U.S. economy remains a problem for Hawai'i.

"The basic problem is there's a huge amount of uncertainty about the U.S. economy, the Japanese economy, the European economy, the Hawai'i economy," he said. "We're all in a weak situation."

REVISING HER NUMBERS

Iboshi, who had been forecasting a 3 percent drop in visitor arrivals this year, has more than doubled the estimate and now projects a 6.7 percent drop-off. Visitor expenditures will shrink by 6.4 percent. Previously the state had estimated a 0.5 percent increase.

In 2009, visitor arrivals are expected to be off 0.8 percent, while visitor expenditures will rise 2.9 percent.

"I really believe that over the longer term that people will not give up traveling and vacationing," Iboshi said.

Her forecast calls for modest growth in state domestic product this year, albeit lower than what she had projected. She said federal and military spending continue to be a stabilizing force and that there is still some growth projected for another pillar of the economy, construction, with the Sheraton hotel renovations in Waikiki and a Disney hotel project slated for Ko Olina.

Bonham said he and other economists at UHERO will be revising their economic forecasts next month.

"It's definitely a moving target and hopefully oil prices will continue to go down and we'll all be a little happier," he said.

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